

GASB 45 Frequently Asked Questions

What is GASB?

The Governmental Accounting Standards Board (GASB) is a non-profit organization that formulates accounting standards for state and local governments. GASB standards are not law but are accounting principles that improve the relevance of financial reporting.

What is GASB 45?

Statement #45 of the Governmental Accounting Standards Board (GASB 45) addresses the accounting and financial reporting by employers for their Other Post-Employment Benefits (OPEB). It applies to all employers that provide OPEB (i.e., the employer pays all or part of the cost of the benefit, including implicit rate subsidies). Statement #45 requires accrual-basis accounting for expenses and measurement and disclosure of funded status, if applicable. Statement #45 is generally consistent with Statement 27 that is currently being used for pension benefits.

Can I rely on CalPERS to explain GASB 45 to me?

Since GASB 45 is an accounting requirement and will affect your financial statements, **we urge you to contact your auditor** regarding any questions you might have about GASB 45. These frequently asked questions contains general information about GASB 45 and its implications and will help you to get a better understanding of this new accounting standard.

What are OPEB?

OPEB consists of post-employment healthcare benefits including medical, dental, vision, hearing and other health related benefits whether provided separately or provided through a defined benefit pension plan. OPEB also include post-employment benefits such as life insurance, disability and long term care if provided separately from a defined benefit pension plan.

When do we need to start complying with GASB 45?

The commencement date for required disclosures for employers under GASB 45 will depend on the size of the employer. Larger employers must start recognizing their liability for financial reporting periods beginning after December 15, 2006. For the State and most public agencies, this will be the fiscal year July 1, 2007 through June 30, 2008. Smaller employers will be able to delay recognition until 2008-09 or even 2009-10.

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The fiscal year when employers must start recognizing their OPEB costs is determined based on the employer's total annual revenue in the first fiscal year ending after June 15, 1999. Implementation of GASB 45 for **employers** is as follows:

- If revenues exceed \$100 million, must start reporting in the 1st fiscal year beginning after December 15, 2006 (i.e., 2007-08)
- If revenues are between \$10 to \$100 million, must start reporting in the 1st fiscal year beginning after December 15, 2007 (i.e., fiscal year 2008-09)
- If revenues are less than \$10 million, must start reporting in the 1st fiscal year beginning after December 15, 2008 (i.e., fiscal year 2009-10)

Employers can decide to start reporting GASB 45 earlier if they wish. GASB encourages earlier implementation.

We want to continue to fund our retiree health benefits on a “pay-as-you-go” basis. Can we?

Yes. There are no requirements that employers pre-fund retiree health benefits. Pre-funding retiree health benefits is the making of actuarially determined periodic payments to partially or completely fund the unfunded actuarial obligation of the employer. Currently, health benefits are usually funded through employer, employee, and retiree contributions on a “pay-as-you-go” basis.

What are the advantages of pre-funding OPEB?

Even if not required, employers may wish to pre-fund the benefits and accumulate assets to offset the OPEB liabilities. Some of the advantages of doing so are:

- Earnings on assets reduce employer contributions significantly
- Investment return assumption (discount rate assumption) will be higher, making annual expense and the unfunded liability lower
- Prevents net OPEB obligation from becoming a significant liability on balance sheet
- Enhanced security for members
- Enhance inter-generational equity
- By not pre-funding, the employer's credit rating might be affected, making it difficult or more expensive to issue bonds

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Is CalPERS going to perform GASB 45 actuarial valuations?

Not initially. CalPERS does not currently have the capabilities of performing GASB 45 actuarial valuations. A feasibility study is currently under way. Once that study is completed, the CalPERS Board will make a decision as to whether or not CalPERS should be doing the actuarial work for GASB 45 valuations.

We want to request a GASB 45 actuarial valuation. Who should we contact?

You will have to hire an actuarial consulting firm to perform the valuation work. CalPERS does not endorse any actuarial firms and recommends that you find your own actuarial firm.

Can you give us a ball park figure of the impact GASB 45 might have on us?

No. We recommend that you contact an actuarial consulting firm to obtain estimates of the impact of GASB 45.

Can we send money to CalPERS to pre-fund our retiree medical obligations?

Not yet. CalPERS is currently trying to set up all necessary administrative systems and procedures to be able to receive pre-funding contributions from employers. Employers will be informed once CalPERS is ready.